



INCREASING THE POTENTIAL
OF A NATURAL
RENEWABLE RESOURCE

FINANCIAL HIGHLIGHTS

	1973	1972	Percent Change
Revenues	\$109,106,000	\$75,769,000	44%
Earnings before taxes	27,547,000	12,502,000	120%
Net earnings	16,356,000	7,094,000	131%
Depreciation, amortization	5,676,000	4,687,000	21%
Capital expenditures	13,107,000	9,629,000	36%
Total assets	78,632,000	69,449,000	13%
Working capital	12,726,000	15,343,000	-17%
Total shareholders' investment	50,738,000	37,560,000	35%
Per Common Share			
Net earnings			
Operating	\$ 4.00	\$ 2.32	72%
Sale of St. Helens timber	1.50	—	
Net income	\$ 5.50	\$ 2.32	137%

Cover

One of nature's greatest gifts to man is the renewability of her forests. Our cover shows part of our Hood Canal tree farms that were logged some 80 years ago and are now ready to yield their second crop of trees. Scattered throughout are the

remnants of mature trees from the first harvest, demonstrating the ability of our timberlands to provide a continuous supply of wood for the future. Tomorrow, use of modern silviculture methods on these lands will bring us our third harvest of trees in 40 years, or less than half the time to grow yesterday's forest.

Annual Stockholders' Meeting

The annual meeting of stockholders will be held at the Olympic Hotel in Seattle, Washington at 3 p.m., April 9, 1974.



POPE & TALBOT, INC.

LETTER TO SHAREHOLDERS

The year 1973 was a record one in every respect. It was our 124th year of operation and vividly demonstrated that at Pope & Talbot, we are still making history. The combination of superior forests, healthy markets, efficient manufacturing and responsive management enabled us to achieve a new earnings base for future growth. Some of the highlights of the past year were:

Revenues and Earnings

For the first time in our history, revenues topped the \$100 million mark. Total revenues were \$109.1 million, an increase of 44% over the \$75.8 million reported in 1972.

Net income of \$16.4 million, including income from certain log and timber sales, was also a new record, moving up from \$7.1 million in 1972. Earnings per share for operating income in 1973 were \$4.00. Add to this another \$1.50 from the sale of St. Helens, Oregon logs and timber, and the total is \$5.50 in earnings per share for 1973.

Outlook

Looking ahead to 1974, we anticipate a decline in results. The lessening in demand for housing due to tight money is the primary reason. On top of this will come start-up expenses for our expanded sawmills at Oakridge, Oregon and

Hudson, Ontario, plus the uncertainties of the energy crisis.

Despite these factors, however, we expect 1974 to be another good year with continued expansion. Supporting our outlook are several positive developments which we feel have adequately positioned us to take full advantage of our new earnings base.

There is the strengthening of world markets where we will be enjoying full benefits of our wood chip export sales, as well as new lumber export agreements with the Japanese.

There is an accelerated land and community development program designed to generate increased revenues.

Also, we expect to fully utilize our low-cost fee timber base in 1974, which will give us additional earnings potential.

Even though we anticipate a downturn in housing demand, we expect increasing consumption in industrial, commercial and residential markets that will keep demand for our lumber, plywood and industrial hardboard at reasonable levels. In this respect, on February 27, 1974, the Board of Directors authorized a \$3 million expansion of the Oakridge, Oregon industrial hardboard plant that will increase capacity 50% by 1976.

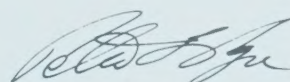
Some five years ago, we embarked upon a major expansion plan designed to strengthen our position in the forest products industry.

We have invested more than \$48 million in capacity expansions,

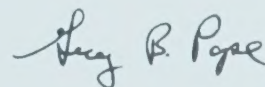
modernizations, timber and Canadian acquisitions. As a result, we have a stronger organizational structure, a unique land and timber asset and a new earnings base.

During these past five years of growth, our revenues have more than doubled. Earnings have gone from \$3.4 million in 1969, to \$16.4 million last year. Operating earnings per share have gone from \$1.12 to \$4.00, excluding special timber sales. Using 1969 as a base then, our five-year compound average growth rate in earnings per share has increased 35%, easily one of the best records in our industry.

The year 1974 marks the beginning of another major phase of growth and expansion for Pope & Talbot. Based on our record and present belief in the future, we remain confident that we will be able to maintain one of the best growth records in our industry for revenues and earnings.



*Chairman and Chief
Executive*



President

ONE BASIS OF OUR PRESENT STRENGTH IS LAND WE'VE MANAGED FOR A CENTURY.

Resource

"Timber till you can't sleep," were the words used by Captain William C. Talbot in 1853 to describe the vast forests surrounding Pope & Talbot's pioneer sawmill operation at Port Gamble, Washington.

Today, 121 years later, these same forests are providing their second, and in some areas even their third, crop of trees to support our Port Gamble mill, the oldest continuously operating sawmill in America.

Pope & Talbot's 125,000 acres of forest land in the United States lie in three managed forests located in the Douglas fir, hemlock and lodgepole pine regions of Oregon and Washington.

This major forest resource makes Pope & Talbot somewhat unique. Located on our ownership are some of the most productive, best quality and highest value timber holdings found anywhere in the world—an inventory of 1.4 billion board feet of merchantable timber.

Our timberlands are highly developed and are restocked as soon as the trees are harvested as part of our continuing forest management program designed to increase the timber yield per acre. Based upon projected cutting levels and current reforestation practices, our Hood Canal tree farms are being

harvested on a sustained yield basis. An intensive fertilization program now being applied to our Hood Canal tree farms is expected to increase Douglas fir timber growth by as much as 20% per acre per year.

At Oakridge, Oregon, our mature, old-growth timber will be harvested over the next 20 years to position the Oakridge holdings into a complete second growth cycle.

In 1969, the Company determined that accelerated cutting of our own timber was the most economic use of this valuable asset. As a result, Company policy evolved towards providing a greater amount of domestic timber requirements from our own timber lands. This percentage was 28% in 1969, and 44% in 1973.

Currently, our objective is to supply 50% of annual domestic timber requirements from fee owned land. We will obtain the remaining 50% by purchase from outside sources, including private owners as well as governmental agencies. This policy gives us excellent flexibility to either use our own low-cost timber, or, when open market prices are favorable, to expand outside sources for wood supply.

For 1974, it is our intention to be at or above the targeted fee to outside purchase ratio.

This strong resource base has important implications for Pope & Talbot. The actual value of our fee lands is considerably more than what is carried on our books. Thus, we have an understated asset which tends to fix our raw material costs at an attractive level.

In addition to our domestic fee lands, timber for the Company's sawmills in British Columbia and in Ontario is obtained from cutting licenses granted by the respective provincial governments. Our long-term timber licenses assure access to well over 2.4 million acres of timber land. This raw material base is sufficient to operate our mills on a sustained yield basis.

For 1974 and beyond, we expect to fully utilize our domestic and Canadian forest resources to provide Pope & Talbot manufacturing divisions with a consistent and long-term supply of wood for current operations as well as future needs.

For each of the five years ended December 31, 1973, the total amounts of logs and timber used in manufacturing or sold to other forest products companies, and the amounts obtained from different sources and the percentages which such amounts constituted, were as follows:

Source of Logs (board feet, 000 omitted)

United States	1973		1972		1971		1970		1969	
Company-owned	49,918*	27.4% *	70,032	33.2%	86,979	43.2%	119,330	51.5%	51,905	27.6%
Public owned	73,822	40.5	89,153	42.2	53,245	26.4	47,434	20.4	54,082	28.8
Private, log purchases . .	58,602	32.1	51,906	24.6	61,413	30.4	65,018	28.1	82,011	43.6
	<u>182,342</u>	<u>100.0%</u>	<u>211,091</u>	<u>100.0%</u>	<u>201,637</u>	<u>100.0%</u>	<u>231,782</u>	<u>100.0%</u>	<u>187,998</u>	<u>100.0%</u>
Canada										
British Columbia										
Licenses	100,543	85.1%	97,230	94.6%	70,330	100.0%	54,420	100.0%	40,526	100.0%
Ontario Licenses	17,637	14.9	5,540	5.4	—	—	—	—	—	—
	<u>118,180</u>	<u>100.0%</u>	<u>102,770</u>	<u>100.0%</u>	<u>70,330</u>	<u>100.0%</u>	<u>54,420</u>	<u>100.0%</u>	<u>40,526</u>	<u>100.0%</u>

*Does not include sale of St. Helens timber.



(upper left) Several new markets of opportunity are being developed for extensive alder hardwood holdings on Hood Canal tree farms.

(lower left) Long term timber licenses in British Columbia and Ontario give Pope & Talbot access to well over 2.4 million acres.



Excellent renewability is characteristic of Company's timberlands, as shown by third growth Douglas fir in foreground with ready-to-harvest second growth in background.

OUR FOREST RESOURCE SUPPORTS RELATED, BUT DISTINCT BUSINESSES.

Operations

Pope & Talbot's excellent forest base provides the raw material for our traditional businesses. These businesses are, on the one hand, the production of building materials directly related to housing, such as our lumber, plywood veneer and specialty plywood products. On the other hand are the non-housing items, such as industrial hardboard, wood chips and our logs and timber for the export market. Together, they provided more than 97% of our revenues in 1973.

The manufacture and sale of wood products including special timber sales contributed income of \$16,371,000 in 1973, an increase of 117% compared to the \$7,558,000 earned in 1972. Revenues increased 43% during the same period to \$105,806,000.

Markets

Consistent with the nation's strong demand for building materials, our wood products facilities operated at peak levels throughout the year. Our facilities produced 336,062,000 board feet of lumber, 76,075,000 square feet of plywood veneer ($\frac{3}{8}$ -

inch basis), 89,634,000 square feet of specialty plywoods ($\frac{3}{8}$ -inch basis), 230,793,000 square feet of industrial hardboard ($\frac{1}{8}$ -inch basis), and 44,415 units of wood chips for export.

New Facilities

Representative of the Pope & Talbot approach to manufacturing facilities is our expanded Oakridge, Oregon, forest products complex. Now in start-up is one of the most technologically advanced log processing and lumber producing facilities of its type in the industry. The objective of this \$10 million project is to realize a maximum recovery of every log brought into the Oakridge complex. The new mill is capable of producing 100 million board feet of lumber annually, about 50% greater than the old mill. At the same time, it is designed to reduce operating costs by as much as 35%.

In addition, wood residue from the expanded Oakridge mill has created a very profitable export market of opportunity. In 1973, our first full year under a new ten-year chip export agreement with a major Japanese paper company,

six full vessel loads of Oakridge chips were shipped to Japan. For 1974 and each succeeding year in the ten-year contract period, we are looking to increase the flow of chips to nine vessels.

At Port Gamble, Washington, where the Company draws much of its raw material from highly productive second-growth timber, a \$1.3 million expansion program completed in the past year has given us the capability of producing all dry lumber. Installation of new dry kilns and related equipment gives us a marketing advantage to growth markets such as Alaska, where net returns are substantially higher on this preferred product. The addition of dry kilns at Port Gamble gives us dry lumber capability at all of our U.S. and Canadian mills.

Another expansion project is our small log sawmill operation at Hudson, Ontario, where we are now completing a \$2.9 million expansion that will see annual production capacity increase from 36 to 76 million board feet of lumber.

(Continued on Page 6)



Typical dockside inventory of lumber at Port Gamble, Washington, ready for barge shipment to busy California construction markets.

New marketing emphasis for family of Ruff-Cut 44 specialty plywood finds this popular panel in growing number of commercial and residential uses.



New earnings diversification for Pope & Talbot is coming from expanding wood chip export sales to Japan, expected to increase from six vessels in 1973 to as many as nine vessels in 1974.

New Facilities (Cont.)

As previously reported, the Hudson mill has not been without its major problems. Heading the list is an extremely depressed stud lumber market. The Hudson situation is now receiving management's maximum attention, and we are hopeful that the bulk of our problems will be under control by mid-1974.

Our other Canadian sawmills at Midway and Grand Forks, British Columbia, reported excellent operating results in 1973. A continuing program of improved efficiencies has prepared these two mills to be competitive in 1974.

At our specialty plywood plant in Kalama, Washington, an improved marketing program will see increased production and sales directed at our proprietary Ruff-cut 44 family of fir, cedar and redwood plywoods.

Management Changes

In late 1973, cancer claimed the life of Mr. Frank McPherson, our

Contribution to Revenues, Income For Wood Products Operations

	For year ended December 31,	
	1973	1972
Revenues	\$105,806,000	\$ 74,201,000
Cost of Sales	66,982,000	51,265,000
Depreciation and Depletion	5,637,000	4,624,000
Selling and Administrative	2,904,000	2,401,000
Contribution to Income	30,283,000	15,911,000

Statistical Review

	1973	1972	1971	1970	1969
Sales Volumes:					
Lumber (millions of board feet)	334	335	249	234	223
Plywood (millions of square feet, 3/8-inch basis)	89	87	90	74	67
Veneer (millions of square feet, 3/8-inch basis)	57	48	60	56	47
Hardboard (millions of square feet, 1/8-inch basis)	226	194	158*	115*	134*
Wood Chips—Export (thousands of units)	58				

* Includes particleboard.

long-time vice president-domestic operations. His valuable contributions will be missed.

Elected to succeed Frank McPherson as vice president-domestic operations is George J. Ritchie, a veteran forest products man. Mr. Ritchie joined Pope & Talbot on December 1, 1973 from Georgia-Pacific Corporation, where he served as wood products manufacturing manager for G-P's large

Crossett division operations, based at Crossett, Arkansas.

Energy

Throughout the Company, we are doing everything possible towards the most efficient utilization of energy, and all Pope & Talbot operations are pursuing their own energy conservation programs. We are presently in no serious energy trouble at any of our domestic or Canadian operations.



One of Pope & Talbot's fastest growth markets is for industrial hardboard (top). Expansion now underway at Oakridge, Oregon will increase production capacity 50% by 1976.

Sophisticated log processing system at Oakridge (bottom left and right) provides maximum product yield at reduced operating cost. New \$10 million project is now in start-up.

THE GOOD LAND OF PUGET SOUND REMAINS A MOST VALUABLE ASSET.

Land and Community Development

It was back in the early 1900's that Pope & Talbot first began developing certain of its vast landholdings on the Puget Sound in Washington state.

Today, that development activity continues and in 1973, accounted for approximately 3% of the Company's total revenues. Actually, this part of our business has increased in the past year. In 1971, for example, total revenues were \$1,655,000, or 3.0% of total revenues. In 1972, revenues decreased to \$1,568,000, and represented only 2.1% of total revenues. The \$3,300,000 in land and community development revenues in 1973 reflects a 110% increase over 1972. The 1972 and 1973 loss figures reflect the writedown and revaluation of several projects. However, the Company does not anticipate any similar writedowns in the future.

While we maintain several major commercial development properties throughout the Pacific Northwest, our main efforts are currently directed towards 85,000 acres of Company tree farms all located within a 50 mile radius of Seattle.

In attempting to determine the best use for this land, we recognize three alternatives:

1) *we can continue to grow timber on this ideally suited tree-growing land;*

Contribution to Revenues, Income For Community, Land Development And Commercial Facilities

For year ended
December 31

	1973	1972
Revenues	\$ 3,300,000	\$ 1,568,000
Cost of Sales	2,304,000	1,432,000
Depreciation and Depletion	39,000	63,000
Selling and Administrative	959,000	667,000
Contribution to (Loss)	(2,000)	(594,000)

2) *we can sell the land to others for special uses; or*

3) *we can develop it ourselves in the same successful manner as our Port Ludlow development near Seattle.*

Port Ludlow is the most complete recreational facility on the Puget Sound, offering a wide variety of sports, a marina, restaurant and beach club, and a complete convention center. In 1973, 30 new condominium units costing in excess of \$1,043,000 and expanded boat docking facilities were added at Port Ludlow. We have built 100 condominiums, of which 70 units have been sold. Also, construction is on schedule for a new championship 18-hole golf course due for opening in the spring of 1975.

In 1973, we sold 46 home sites at Port Ludlow at an average sales price of approximately \$10,500 and have an additional 168 improved sites available for sale. To date, the Company has sold a total of 566 homesites at Port Ludlow.

One of the more promising opportunities for us in the Puget Sound area centers on the U. S. Navy's Trident missile submarine base now nearing construction at Bangor, Washington. Bangor is lo-

cated almost squarely in the middle of our Puget Sound holdings and development interest in our land is steadily increasing. Present Navy plans call for building a world base for the sophisticated Trident missile submarine that will bring an estimated 30,000 new people to this area. It is apparent this will mean growing pressure on the surrounding land base, and we will be prepared to meet the challenge.

In summary, we fully recognize the substantial long-term value of our Puget Sound and other commercial development properties. To this end, and keeping in mind the three alternatives available to us, we have established an objective of generating a minimum of \$1 million annually in pre-tax income from our land and community development activities.



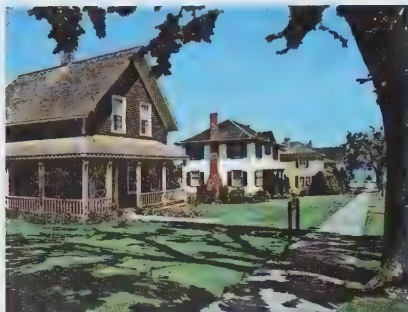
Washington's Puget Sound is the center of activity for Pope & Talbot's land and community development program which involves 85,000 acres of Company tree farms, all located within a 50 mile radius of Seattle.



Port Ludlow is Pope & Talbot's response to a fast growing demand for complete marine-oriented recreation on the Puget Sound.

Popular waterfront condominiums at Port Ludlow include these 30 new units just now being introduced to potential buyers.

**WE'VE MADE
RESPECT FOR OUR PAST
A MATTER OF CURRENT
CORPORATE POLICY.**



Social Responsibility

In the past few years, environmental quality has been a way of life for American industry, with full impact on the forest products business. Understandably, at Pope & Talbot we have committed time, money and effort towards improving the quality of air and water in the vicinity of our plants. The results to date have been rewarding.

Yet, there is another very important aspect to upgrading the environment that deserves special attention. It is the area of historical preservation, or more succinctly, protecting the remnants of our heritage.

At Port Gamble, Washington, Pope & Talbot is adding the finishing touches to one of the most successful examples of community preservation to be found in America. The Company has already won national acclaim for its Port Gamble project.

Interestingly, Port Gamble is the birthplace of Pope & Talbot's forest products manufacturing operations in the Pacific Northwest. At the same time, the community also



represents the oldest continuously operating sawmill in North America—and, appropriately enough, it is one of the Company's most profitable sawmills.

It was 1853 when Captain William Talbot and Andrew J. Pope, both natives of Maine, discovered the vast Puget Sound timberlands and located their first mill at Port Gamble.

Then came gradual development over the years of a community distinctive in appearance because of its unusual New England architectural style. In the mid-



1960's, Pope & Talbot's management recognized that there was a rare opportunity here to not only protect and preserve the Company's historical foundation, but to demonstrate to a somewhat doubting public that the forest products industry is concerned with protecting the uniqueness of the past.

To this end, the Company has rebuilt and restored more than 60 homes, commercial buildings and St. Paul's Episcopal church. In addition, utilities have been placed underground and present street lamps have been replaced with authentic gas lamp duplicates of a bygone era. And there is more to come, like the plans to establish a combination Company and forest products industry museum.

The Company's history is filled with many exciting changes, and more will come as Pope & Talbot continues to make history. Port Gamble is living proof of our concern for the past and it aptly demonstrates our consistent awareness of environmental quality.

WE'RE
STILL MAKING
HISTORY.



Corporate Headquarters

Portland, Oregon



Community Development Properties

Port Ludlow, Washington
Seattle area (2)
Tacoma, Washington



Manufacturing

Lumber

Oakridge, Oregon
Port Gamble, Washington
Grand Forks, British Columbia
Midway, British Columbia
Hudson, Ontario

Specialty Plywood

Kalama, Washington

Hardboard

Oakridge, Oregon

Plywood Veneer

Oakridge, Oregon

Wood Chips

Oakridge, Oregon



Timberlands

Domestic Fee Ownership

40,000 acres—Oakridge, Oregon
85,000 acres—Hood Canal tree farms



Canadian Timber Licenses

1,000,000 acres—British Columbia
1,400,000 acres—Ontario

FINANCIAL REVIEW

Financial Position

Our strong emphasis on financial planning has enabled us to establish a healthy financial position. From the standpoint of the stockholders, return on stockholder equity was up from 20.2% in 1972 to 36.3% this past year, and stockholder equity increased from \$37,560,000 to \$50,738,000. During the same period, book value per common share rose from \$12.26 in 1972 to \$17.06 per share in 1973. Thanks to excellent cash flow, total debt was reduced \$7,822,000 in 1973, and our targeted debt to total capital ratio of 35% was actually only 16% by year-end.

Dividends

As a positive means of broadening public ownership of the company's stock, a 4% stock dividend was declared for the year on November 8, 1973, payable January 24, 1974 to stockholders of record January 3, 1974. Our stock dividend record recognizes that the earnings base of Pope & Talbot has shown significant growth in the past few years. Since 1968, the Company has declared stock dividends in 1968, 1972 and 1973, plus stock splits of three for one in 1969 and three for two in 1972. The 1973 stock dividend increases shares outstanding from approximately 2,949,000 to 2,965,000.

In 1973, the Company increased its annual cash dividend paid to stockholders from \$.26 to \$.38. On January 22, its Board of Directors approved a new dividend calling for a 56% increase in the cash dividend from \$.38 to \$.60 per share per year, payable quarterly.

Capital Expenditures

Capital expenditures for 1973, including the items discussed in other parts of this report as well as additional production improvements totaled \$13,107,000, up from \$9,629,000 in 1972. In 1974, we anticipate spending approximately \$14,190,000 for timber and capital improvements to increase capacity, improve production efficiencies, or enhance the profitability of the Company's diverse operations.

Wood Products Operations Statistics

Domestic Sawmills

178,000,000 bd. ft. rated annual capacity
141,082,000 bd. ft. 1973 production
Capacity bd. ft.
Oakridge, Oregon 98,000,000
Port Gamble, Washington
80,000,000

Specialty Plywood (3/8-in. basis)

86,000,000 sq. ft. rated annual capacity
89,634,000 sq. ft. 1973 production
Capacity sq. ft.
Kalama, Washington . . . 86,000,000

Canadian Sawmills

240,000,000 bd. ft. rated annual capacity
194,980,000 bd. ft. 1973 production
Capacity bd. ft.
Grand Forks, B.C. 70,000,000
Hudson, Ontario 75,000,000
Midway, B.C. 95,000,000

Industrial Hardboard (1/8-in. basis)

230,000,000 sq. ft. rated annual capacity
230,793,000 sq. ft. 1973 production
Capacity sq. ft.
Oakridge, Oregon 230,000,000

Plywood Veneer (3/8-in. basis)

70,000,000 sq. ft. rated annual capacity
76,075,000 sq. ft. 1973 production
Capacity sq. ft.
Oakridge, Oregon 70,000,000

**FIVE
YEARS OF
GROWTH**

Contribution to Revenues, Income	(Dollar amounts in thousands)									
	1973		1972		1971		1970		1969	
Revenues										
Forest Products (1) ..	\$105,806	97.0%	\$74,201	97.9%	\$54,038	97.0%	\$43,638	91.6%	\$46,702	92.5%
Land and Community Development (1)	3,300	3.0	1,568	2.1	1,655	3.0	3,993	8.4	3,766	7.5
	<u>\$109,106</u>	<u>100.0%</u>	<u>\$75,769</u>	<u>100.0%</u>	<u>\$55,693</u>	<u>100.0%</u>	<u>\$47,631</u>	<u>100.0%</u>	<u>\$50,468</u>	<u>100.0%</u>

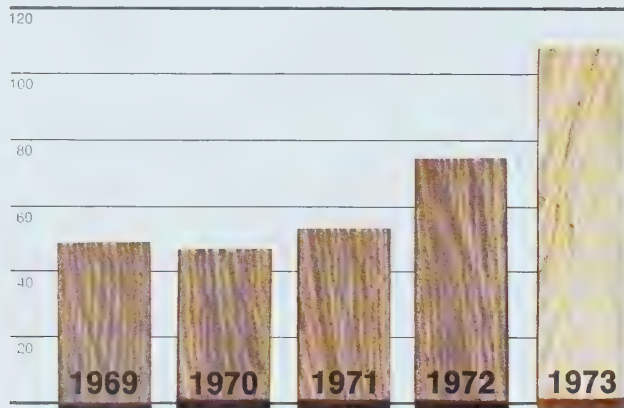
Contribution to Income (2)										
Forest Products	\$ 30,283	100.0%	\$15,911	103.8%	\$ 9,721	103.1%	\$ 4,025	63.4%	\$ 7,424	92.9%
Land and Community Development	(2)		(594)	(3.8)	(289)	(3.1)	2,327	36.6	569	7.1
	<u>\$ 30,281</u>	<u>100.0%</u>	<u>\$15,317</u>	<u>100.0%</u>	<u>\$ 9,432</u>	<u>100.0%</u>	<u>\$ 6,352</u>	<u>100.0%</u>	<u>\$ 7,993</u>	<u>100.0%</u>

(1) Including interest and other income.

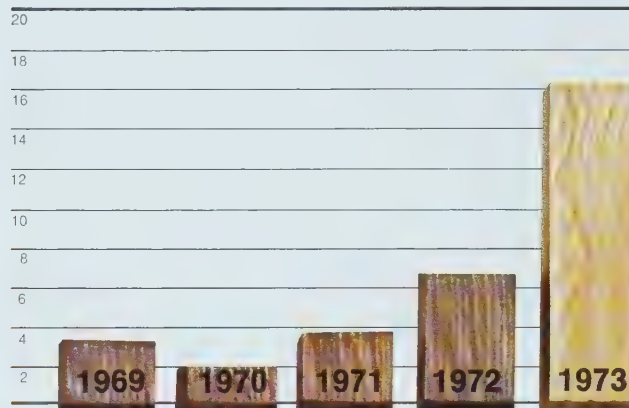
(2) Before income taxes, corporate general and administrative expense and interest.

Contribution to Wood Product Revenues	(Dollar amounts in thousands)									
	1973		1972		1971		1970		1969	
Lumber	\$53,237	50.8%	\$42,094	57.1%	\$24,599	45.7%	\$17,570	40.4%	\$20,686	44.5%
Specialty Plywood ...	13,327	12.7	10,282	13.9	9,513	17.6	7,515	17.3	8,062	17.4
Hardboard	6,866	6.6	5,694	7.7	4,439	8.2	2,631	6.1	3,400	7.3
Veneer	3,863	3.7	2,509	3.4	2,941	5.5	2,277	5.2	2,680	5.8
Particleboard	—	—	—	—	—	—	215	0.5	2,898	6.2
Pulp Chips	5,734	5.5	3,280	4.5	1,792	3.3	2,618	6.0	1,021	2.2
Logs and Timber	18,492	17.6	5,942	8.1	7,996	14.9	8,717	20.0	4,405	9.5
Other	3,296	3.1	3,909	5.3	2,591	4.8	1,951	4.5	3,310	7.1
	<u>104,815</u>	<u>100.0%</u>	<u>73,710</u>	<u>100.0%</u>	<u>53,871</u>	<u>100.0%</u>	<u>43,494</u>	<u>100.0%</u>	<u>46,462</u>	<u>100.0%</u>
Interest and Miscellaneous Income	991		491		167		144		240	
	<u>\$105,806</u>		<u>\$74,201</u>		<u>\$54,038</u>		<u>\$43,638</u>		<u>\$46,702</u>	

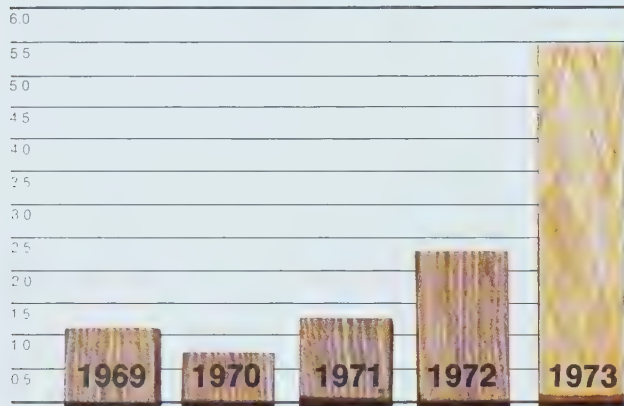
Revenues (Millions of Dollars)



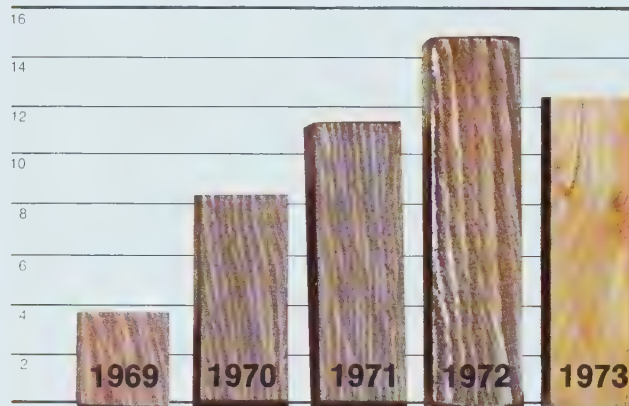
Net Income (Millions of Dollars)



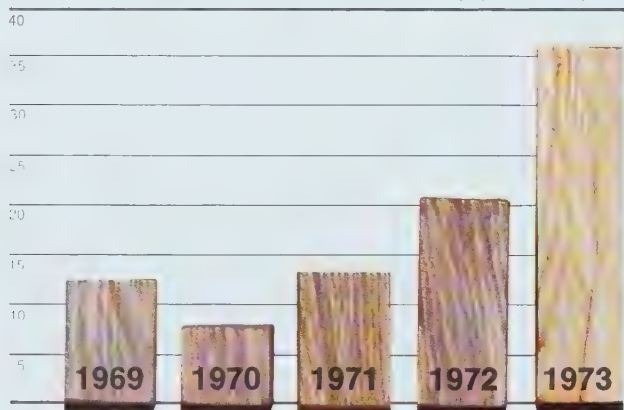
Net Income Per Share (Dollars)



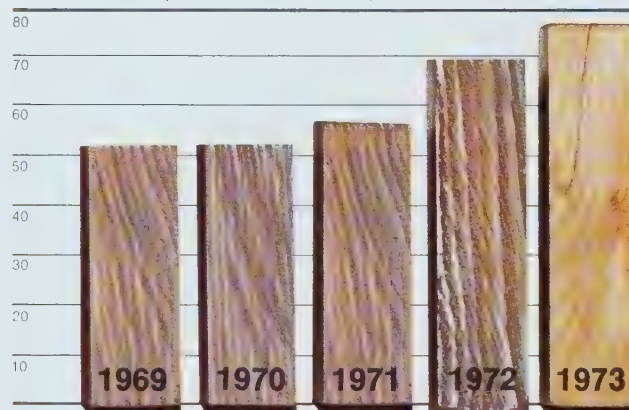
Net Working Capital (Millions of Dollars)



Return on Stockholder's Average Equity (Per Cent)



Total Assets (Millions of Dollars)



CONSOLIDATED FIVE YEAR FINANCIAL SUMMARY

Operations	1973	1972	1971	1970	1969
					Thousands
Revenues	\$109,106	\$75,769	\$55,693	\$47,631	\$50,468
Income before income taxes	27,547	12,502	6,956	3,795	5,559
Net income	16,356	7,094	3,942	2,020	3,414
Net income per common share	5.50	2.32	1.29	.66	1.12
Dividends per share					
Common					
Cash	.40	.31	.40	.40	.38
Adjusted for stock splits and stock dividends	.38	.26	.25	.25	.24
Stock	4%	4%	—	—	—
Stock split	—	3 for 2	—	—	3 for 1
Balance sheet					
Net working capital	\$12,726	\$15,343	\$11,640	\$ 8,237	\$ 3,883
Capital assets	41,174	34,208	28,987	25,696	26,777
Shareholders interest					
Common	17.06	12.26	10.18	9.14	8.77
Weighted average shares of common stock outstanding during the year*	2,974,245	3,063,226	3,062,009	3,064,262	3,049,416

* Adjusted retroactively for stock splits and stock dividends.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
and Stockholders
Pope & Talbot, Inc.

We have examined the accompanying consolidated balance sheet of Pope & Talbot, Inc. at December 31, 1973 and the related consolidated statements of income, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and

accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Pope & Talbot, Inc. at December 31, 1973 and 1972 and the consolidated results of operations and changes in financial

position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Portland, Oregon
January 30, 1974

POPE & TALBOT, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1973 AND 1972

Assets	1973	1972
	Thousands	
Current assets:		
Cash	\$ 1,268	\$ 4,524
Certificates of Deposit	5,500	5,023
Accounts and notes receivable	6,438	7,103
Inventories of wood products (Notes 1 and 2)	12,931	9,040
Deposits on log purchase contracts (Note 1)	1,166	1,328
Prepaid expenses, including net deferred income taxes	1,342	1,018
Total current assets	28,645	28,036
Other assets:		
Notes and contracts, due after one year:		
Real estate installment contracts, less unamortized valuation discount of \$212,000 in 1973 and \$156,000 in 1972 (Note 1)	974	617
Notes receivable	624	984
Realty inventory (Note 1)	6,794	5,397
Deferred charges and sundry assets	421	206
Total other assets	8,813	7,204
Plant and equipment, at cost (Note 1):		
Mills, plants and improvements	10,881	8,533
Equipment	28,188	20,496
Mobile equipment	7,921	5,951
Construction in progress	5,008	5,905
	51,998	40,885
Less accumulated depreciation	23,184	20,374
Net plant and equipment	28,814	20,511
Land, timber, timber cutting rights and logging roads, at cost less depletion and amortization (Notes 1 and 3)	12,360	13,698
	<u>\$78,632</u>	<u>\$69,449</u>

See accompanying notes.

Liabilities and Stockholders' Equity	1973	1972
	Thousands	
Current liabilities:		
Accounts payable	\$ 4,357	\$ 4,160
Accrued payroll and related taxes	1,379	1,120
Accrued property taxes	518	524
Other accrued liabilities	1,126	834
Deposits and other	898	956
Income taxes	7,283	4,714
Long-term debt due within one year	358	385
Total current liabilities	15,919	12,693
Long-term debt due after one year (Note 4)	9,850	17,359
Deferred income taxes (Note 1)	2,125	1,837
Contingent liabilities (Note 5)	—	—
Stockholders' equity (Notes 4 and 6):		
Preferred stock, \$10 par value; 1,500,000 shares authorized, none issued	—	—
Common stock, \$2 par value; 5,500,000 shares authorized, 2,949,299 shares issued including 106,954 treasury shares (2,835,972 shares issued and outstanding at December 31, 1972)	5,899	5,672
Additional paid-in capital	3,355	1,211
Retained earnings	41,484	30,677
Total stockholders' equity	50,738	37,560
	\$78,632	\$69,449

POPE & TALBOT, INC.
CONSOLIDATED STATEMENT
OF INCOME
YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
	Thousands	
Revenues:		
Forest products	\$ 96,670	\$73,710
Sale of St. Helens logs and timber (Note 7)	8,145	—
Land, community development and commercial facilities	2,952	1,277
Interest	1,127	642
Other	212	140
	<u>109,106</u>	<u>75,769</u>
Costs and expenses:		
Cost of sales:		
Forest products	72,619	55,889
Land, community development and commercial facilities	2,343	1,495
Selling, general and administrative	5,210	4,468
Interest	1,387	1,415
	<u>81,559</u>	<u>63,267</u>
Income before income taxes	27,547	12,502
Provision for income taxes (Note 9)	11,191	5,408
Net income	<u>\$ 16,356</u>	<u>\$ 7,094</u>
Net income per common share (Note 1)	<u>\$5.50</u>	<u>\$2.32</u>

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
	Thousands	
Source of working capital:		
Operations:		
Net income	\$16,356	\$ 7,094
Charges against income not requiring the current use of working capital:		
Depreciation	3,097	2,464
Depletion and amortization	2,579	2,223
Deferred income taxes (noncurrent portion)	289	402
	22,321	12,183
Disposals of land, plant and equipment	270	628
Issuance of long-term debt	313	10,054
Proceeds from sale of real estate installment contracts receivable	—	2,982
Reduction in real estate installment contracts and notes receivable	618	1,134
Issuance of capital stock	390	85
Reduction in realty inventory	1,593	897
	25,505	27,963
Application of working capital:		
Purchase of business, including working capital deficit of \$779,000	—	1,549
Additions to plant and equipment	11,638	8,578
Reduction of long-term debt	7,822	10,070
Additions to land, timber, timber cutting rights and logging roads	1,469	1,051
Additions to real estate installment contracts and notes receivable	615	921
Additions to realty inventory	2,990	1,222
Purchase of treasury stock	2,411	—
Cash dividends	1,147	783
Other—net	30	86
	28,122	24,260
Increase (decrease) in working capital	\$(2,617)	\$ 3,703
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	\$(3,256)	\$ 2,145
Certificates of deposit	477	5,023
Receivables	(665)	1,351
Inventories of wood products	3,891	1,581
Deposits	(162)	(140)
Prepaid expenses	324	257
	609	10,217
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	742	2,708
Deposits and other	(58)	956
Income taxes	2,569	3,700
Long-term debt due within one year	(27)	(850)
	3,226	6,514
Increase (decrease) in working capital	\$(2,617)	\$ 3,703

See accompanying notes.

POPE & TALBOT, INC.
CONSOLIDATED STATEMENT OF
STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1973 AND 1972

	<u>Common stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>paid-in</u>	<u>earnings</u>	
			<u>capital</u>		
Dollars in thousands					
Balance at December 31, 1971	1,889,712	\$3,779	\$3,019	\$24,372	\$31,170
Net income	—	—	—	7,094	7,094
Stock split (3 for 2), no change in par value, plus cash					
paid in lieu of fractional shares	943,360	1,887	(1,887)	(6)	(6)
Proceeds from exercise of stock options	5,400	11	74	—	85
Treasury shares retired	(2,500)	(5)	5	—	—
Cash dividends (\$.26 per share)	—	—	—	(783)	(783)
Balance at December 31, 1972	2,835,972	5,672	1,211	30,677	37,560
Net income	—	—	—	16,356	16,356
4% stock dividend, at market value plus cash paid in					
lieu of fractional shares	112,859	226	1,755	(1,991)	(10)
Purchase of treasury shares (127,811 shares)	—	—	—	(2,411)	(2,411)
Issuance of treasury shares (20,857 shares) under					
stock bonus plans	—	—	382	—	382
Proceeds from exercise of stock options	468	1	7	—	8
Cash dividends (\$.38 per share)	—	—	—	(1,147)	(1,147)
Balance at December 31, 1973	<u>2,949,299</u>	<u>\$5,899</u>	<u>\$3,355</u>	<u>\$41,484</u>	<u>\$50,738</u>

See accompanying notes.

POPE & TALBOT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1973 and 1972

1. Accounting policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries. It is the Company's intention to reinvest the unremitted earnings of its foreign subsidiaries (all of which are Canadian); therefore, it has not recognized federal and state income taxes on their undistributed earnings (\$8,026,000) which have been included in consolidated earnings through 1973.

Translation of Canadian currency

Current assets and current liabilities are translated at the rate of exchange in effect at the close of the period. Long-term assets are translated at the rates in effect at the dates these assets were acquired, and long-term liabilities are translated at the rates in effect at the dates these obligations were incurred. If long-term debt was translated at the rate of exchange in effect at December 31, 1973, the effect would not be material. Net unrealized translation losses (which are not material) are charged to income. The Company has no forward exchange contracts. Revenue and expense accounts for each month are translated at the average rate of exchange in effect during the month, except for depreciation, depletion and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired.

Inventories

Wood products inventories are stated at the lower of cost or market. Cost of a portion of the lumber inventories has been determined on the last-in, first-out method. Cost of remaining inventories has been determined on first-in, first-out and average cost methods.

Realty inventory consists primarily of developed and developable land held for sale to customers and is stated at the lower of cost (specific identification method) or market.

Retail land sales

Sales of developed land are principally made on the installment basis under which the buyer pays 10% down and the balance over an average of 11 years. Gross profits are recognized at the time of sale for financial reporting purposes after discounting the installment contract receivable to yield an effective rate of interest based on current similar installment credit rates.

Plant, equipment and start-up costs

For financial reporting purposes, depreciation

is determined principally on the straight-line method.

Expenditures which materially increase property lives are capitalized. The costs of maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the cost of plant and equipment and related accumulated depreciation is removed from the balance sheet accounts and resulting profit or loss is included in income. Costs applicable to the startup of new mills or other improvements are charged to expense as incurred.

Depletion and amortization

Depletion of timber and amortization of logging roads is provided at rates determined annually by dividing unrecovered costs by the estimated recoverable volume by specific tracts. Because of wide variances in cost of timber, the resulting costs of timber cut can vary significantly depending on which tract is logged.

The Canadian Government has granted the Company's Canadian subsidiaries exclusive licenses to log certain defined areas of timber. The cost of these timber cutting rights is being amortized over their estimated useful lives not to exceed 50 years. At the time specific licenses are determined to be of limited future value, the unamortized balances of such licenses are charged to expense.

Timber cutting contracts

The Company has three principal types of contracts under which they purchase and sell domestic timber: 1) "lump sum", requiring payment of a fixed amount for all timber on the specified tract; 2) "fixed price per thousand board feet cut", where title passes on the contract date; and 3) "fixed or variable price per thousand board feet cut", where title passes as the timber is removed. Both types of "price per thousand board feet cut" contracts generally require cutting and removal of all merchantable timber on the specified tract with payment at the contract rate as the timber is removed. The Company accounts for timber acquired or sold under contract types 1) and 2) above at the contract date. The type 3) contracts are considered to be purchase or sales commitments, and accordingly are not recorded until the timber is removed.

Pensions

The Company and its subsidiaries have several pension plans covering substantially all their employees, including employees in Canada. The Company's policy is to fund pension cost as accrued.

Deferred income taxes

Deferred taxes are provided for timing differences between financial and tax reporting, principally depreciation, installment sales, inventories and certain other charges against book income that are not currently deductible for tax purposes. Deferred taxes are also provided with respect to that portion of the earnings of a domestic international sales corporation (DISC) eligible for tax deferral.

Investment Credit

The investment tax credits are applied as a reduction of income taxes on the flow-through method.

Net income and cash dividends per common share

Net income per common share is based on the weighted average of shares outstanding. The effect of common stock equivalents is immaterial during both years. Net income and cash dividends per share have been retroactively adjusted to reflect a 3 for 2 stock split in 1972 and 4% stock dividends declared by the Board of Directors in January, 1973 and November, 1973 (the latter payable in January, 1974).

Account classification

Certain accounts for 1972 have been reclassified in the accompanying consolidated statement of income to conform with 1973 account classifications.

2. Inventories

Wood products inventories consist of the following:

	1973	1972
	Thousands	
Logs	\$ 9,201	\$6,449
Lumber	2,196	1,767
Other	1,534	824
	<u>\$12,931</u>	<u>\$9,040</u>

The portion of lumber inventories determined on the last-in, first-out method aggregated \$244,000 at December 31, 1973 and \$662,000 at December 31, 1972. The current replacement cost of these inventories at December 31, 1973 and 1972 amounted to \$1,077,000 and \$1,572,000, respectively.

3. Land, timber, timber cutting rights and logging roads

Land, timber, timber cutting rights and logging roads are as follows:

	1973	1972
	Thousands	
Land	\$ 1,122	\$ 1,120
Timber	4,660	5,383
Timber cutting rights	5,023	5,904
Logging roads	1,555	1,291
	<u>\$12,360</u>	<u>\$13,698</u>

4. Long-term debt due after one year

Long-term debt due after one year consists of the following:

	1973	1972
	Thousands	
8 $\frac{3}{4}$ % notes payable to insurance company, principal due 1976-1987, interest due semi-annually	\$5,000	\$ 5,000
9% notes payable to insurance companies, principal due 1974-1987, interest due semi-annually	4,362	4,694
Notes payable to domestic banks, prepaid in 1973 (interest based upon prime rate)	—	7,200
Timber purchase contracts, payable as timber is cut	451	426
Other notes, mortgages and contracts ...	37	39
	<u>\$9,850</u>	<u>\$17,359</u>

The loan agreements related to the notes payable to insurance companies contain, among other things, certain requirements as to maintenance of working capital, sale of assets, incurrence of debt and restrictions as to the payment of cash dividends. At December 31, 1973, the amount of retained earnings which would not have been restricted as to payment of cash dividends was \$22,127,000; however, because of the working capital requirement only \$4,766,000 was free of restrictions.

Annual payments on long-term debt, excluding timber purchase contracts, for the four years subsequent to December 31, 1974 are approximately as follows: 1975 — \$335,000; 1976 — \$752,000; 1977 — \$752,000; 1978 — \$752,000.

5. Contingent liabilities

At December 31, 1973, the Company was contingently liable on approximately \$2,200,000 of real estate installment contracts sold with recourse to a bank in February, 1972.

During 1972 and 1973, a number of class action suits on behalf of lumber and plywood dealers and other purchasers were filed against substantially all of the manufacturers of plywood in the United States, including the Company. The suits allege antitrust law violations and seek treble damages in an unspecified amount and an injunction. The plaintiffs seek to represent a class of purchasers, but the court has not determined whether the cases will go forward as class actions. A motion is now before the court to consider consolidation of the suits into one joint action. Counsel for the Company is unable at this time to evaluate either the likelihood or the amount of possible damages.

6. Stock option and bonus plans

The number of shares and per share prices stated below give effect to the 3 for 2 stock split in 1972 and the 4% stock dividend distributed in 1973.

Under the Company's qualified stock option plan, options may be granted to key employees, including officers and directors to purchase shares of the Company's common stock at not less than fair market value as of the date of grant. Options run for a term of five years and 20% of the options become exercisable in each of the five years subsequent to the date of grant, on a cumulative basis. In April, 1973, the stockholders

approved an amendment to the plan (adopted by the Board of Directors in November, 1972) which limited the aggregate number of shares issuable under the plan to 104,000.

The following table summarizes data concerning qualified stock options for the two years ended December 31, 1973:

	Shares available for future grants	Shares granted but unexercised	Aggregate value of unexercised options Thousands	Exercise price per share
Balance at December 31, 1971	195,624	38,376	\$582	\$15.17
Options granted	(17,940)	17,940	302	16.82
Reduction in total shares issuable	(130,000)	—	—	—
Options exercised	—	(5,616)	(85)	15.17
Balance at December 31, 1972	47,684	50,700	799	15.17-16.82
Options granted	(5,000)	5,000	84	16.75
Options exercised	—	(468)	(8)	16.82
Balance at December 31, 1973	42,684	55,232	\$875	\$15.17-16.82
Options exercisable at December 31, 1973		40,468	\$600	\$15.17-16.82

In April, 1973, the stockholders approved the restricted stock bonus plan for officers and key employees, which the Board of Directors had adopted in November, 1972, covering an aggregate of 130,000 shares of common stock. At December 31, 1972, 19,719 shares had been granted. During 1973, 1,550 shares were cancelled and an additional 2,688 shares were granted; and at December 31, 1973, 109,143 shares were available for future grant. Shares issued under the stock bonus plan are covered by restrictions for periods up to nine years from the end of each full year following the date the shares are issued. The costs of the plans, which have not been material to date, are deferred and charged to expense over the restriction period.

7. Revenues from log and timber sales

During 1973, due to a large increase in demand for logs, especially for export, the Company decided to dispose of timber which previously supported its St. Helens mill and, accordingly, sold a substantial portion of its holdings in that area. Total sales of logs, timber and timberlands from this area in 1973 were approximately \$8,145,000 (an estimated 52,390,000 board feet). The effect of the sale was to increase net income by approximately \$4,459,000 or \$1.50 per share.

The Company also sells logs and timber in the ordinary course of business. In addition to the St. Helens transactions referred to above, sales of logs

and timber included in forest product sales for 1973 approximated \$10,347,000 (58,120,000 board feet) as compared to \$5,942,000 (74,250,000 board feet) in 1972.

8. Pension and retirement plans

The Company has pension plans that cover substantially all employees not covered by negotiated union plans. Based on the most recent actuarial report, the pension fund assets are approximately equal to the present value of vested benefits. The cost for all the plans approximated \$710,000 for 1973 and \$393,000 in 1972.

9. Income taxes

The major components of the provision for income taxes for 1973 and 1972 are as follows:

	Current	Deferred	Total
	Thousands		
1973			
Federal	\$ 6,303	\$ (4)	\$ 6,299
Canadian	4,082	115	4,197
State	683	12	695
	<u>\$11,068</u>	<u>\$ 123</u>	<u>\$11,191</u>
1972			
Federal	\$ 2,199	\$ (363)	\$ 1,836
Canadian	2,660	768	3,428
State	160	(16)	144
	<u>\$ 5,019</u>	<u>\$ 389</u>	<u>\$ 5,408</u>

The tax expense for the Company was at an effective tax rate different than the normal 48% federal income tax rate. The reasons for this difference are as follows:

	1973 Dollar amount Thousands	Percent of pretax income	1972 Dollar amount Thousands	Percent of pretax income
Computed "expected" tax expense	\$13,223	48.0%	\$6,001	48.0%
Capital gains benefits arising mainly from the application of Section 631 of the Internal Revenue Code which allows capital gains treatment on timber...	(2,793)	(10.1)	(615)	(4.9)
Foreign income subject to foreign income tax rates different than United States federal rates, that is not expected to be subject to United States federal taxes in the future	927*	3.4*	112	.9
Investment tax credit...	(577)	(2.1)	(140)	(1.1)
State income and franchise taxes, net of federal income tax benefit	361	1.3	83	.7
Other items—net	50	.1	(33)	(.3)
Actual tax expense	<u>\$11,191</u>	<u>40.6%</u>	<u>\$5,408</u>	<u>43.3%</u>

*Includes loss of subsidiary with no tax benefit which results in increased effective tax rate for Canadian operations.

OFFICERS



*Peter T. Pope
Chairman and Chief Executive Officer*



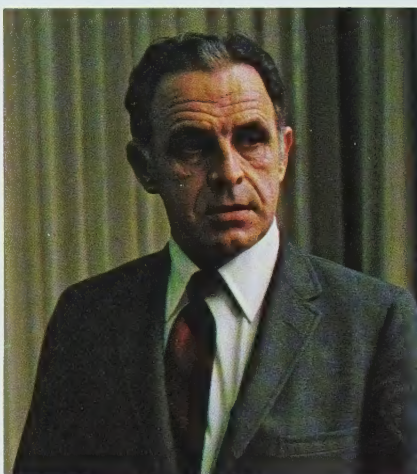
*Guy B. Pope
President*



*George H. Folquet
Vice President-Treasurer*



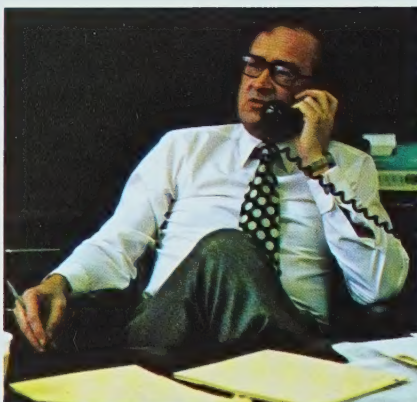
*Adolphus Andrews, Jr.
Senior Vice President*



*Sylvester Rodakowski
Vice President-Lumber*



*George J. Ritchie
Vice President-Operations*



*Roger D. Bruce
President, Pope & Talbot Development, Inc.*



Directors

Peter T. Pope

Chairman and Chief
Executive Officer

Guy B. Pope

President

Adolphus Andrews, Jr.

Senior Vice President

George H. Folquet

Vice President

Sylvester Rodakowski

Vice President

James A. Barnett

Director and Member of
Executive Committee,
Purex Corporation, Ltd.

Hamilton W. Budge

Partner, Brobeck, Phleger
& Harrison

Lawrence Dampier

Vice President, Kelly,
Douglas & Company, Ltd.

C. Edward Midgley

Vice President and Director,
Kidder, Peabody & Company,
Inc.

George A. Pope, Jr.

Honorary Chairman of the
Board

Cyrus T. Walker

Former President and
Corporate Advisor

Officers

Peter T. Pope

Chairman and Chief
Executive Officer

Guy B. Pope

President

Adolphus Andrews, Jr.

Senior Vice President and
Secretary

George H. Folquet

Vice President, Treasurer
and Assistant Secretary

George J. Ritchie

Vice President-Operations
and Assistant Secretary

Sylvester Rodakowski

Vice President-Lumber Sales
and Assistant Secretary

Wesley R. Luther

Controller

Roger D. Bruce

President Pope & Talbot
Development, Inc.

George F. Sherbinin

President Pope & Talbot,
Ltd. (British Columbia)

G. G. A. Hilliard

President Pope & Talbot
Ontario, Ltd.

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Principal Transfer Agent, Dividend Disbursing Agent and Registrar

The Bank of California, N.A.,
San Francisco, California

Co-Transfer Agent and Co-Registrar

Morgan Guaranty Trust
Company of New York,
New York, New York



POPE & TALBOT, INC.